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United States General Accounting Office

Report to the Honorable
Joseph R. Biden, Jr., U.S. Senate

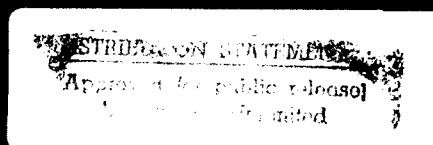
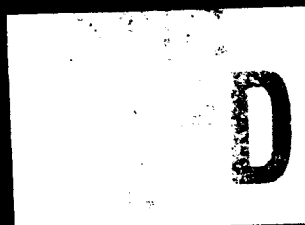
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March 1993

INTERNATIONAL AIR AND TRADE SHOWS

DOD Increased Participation, but Its Policies Are Not Well-Defined



GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-251353

March 11, 1993

The Honorable Joseph R. Biden, Jr.
United States Senate

Dear Senator Biden:

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As you requested, we reviewed the Department of Defense's (DOD) recent participation in international air and trade shows. Specifically, our objectives were to (1) obtain data on DOD's participation in selected shows since May 1991; (2) determine whether, since May 1991, DOD has changed its policies on participating in these shows and leasing equipment to contractors who participate; and (3) obtain the policies of other leading industrialized nations regarding their participation in the shows and their support of contractors who participate.

Results in Brief

According to DOD officials, since May 1991, DOD has sent more personnel and equipment to some major international air/trade shows than in prior years. DOD estimates the direct costs of its participation in six selected shows since May 1991 at about \$3.8 million, but did not have the data to estimate costs incurred at prior shows. About half the costs were training costs that DOD officials said would have occurred regardless of whether DOD had participated, and the remainder were incremental costs, such as personnel support costs and the costs for technology display booths. Aside from DOD's costs, DOD's contractors defrayed most of the incremental costs for service members transporting and supporting the equipment.

Because the policies for participating in international air and trade shows are not well-defined, we could not document whether DOD's policies had changed since May 1991. DOD officials said that (1) the increased participation did not result from a policy change; (2) no written policy specifically addresses participation; (3) participation is not governed by guidelines on community relations, which have been cited in the justifications for participation in some international air and trade shows; and (4) approval and terms of participation are on a show-by-show basis. For selected shows since May 1991, coordination responsibility was reassigned to the Director, Defense Security Assistance Agency (DSAA).

DOD has not changed its policy on the leasing of equipment to defense contractors for these shows. If contractors desire to display and/or demonstrate DOD equipment, DOD policy requires them to lease the

demonstrate DOD equipment, DOD policy requires them to lease the equipment from the military services and pay all related costs. However, if DOD sends equipment for its own purposes, it does not charge contractors. Furthermore, service officials are authorized to waive contractor lease charges. According to an official, DOD has not collected data on the extent that waivers have been used at international air and trade shows. While the leasing policy has not changed, DOD's increased participation at selected international events after May 1991 and its use of waivers have made more U.S. equipment available without contractors incurring full leasing costs.

A section in the National Defense Authorization Act of 1993, effective in October 1992, provides specific legislative authority for DOD to participate in and provide equipment to contractors for air and trade shows. This section provides for congressional notification and requires contractors to reimburse all incremental costs involved with the equipment DOD provides on request. However, DOD has not yet issued directives that establish policy and provide guidance to implement the provisions.

The policies of some leading industrialized nations regarding international air and trade shows vary as to whether equipment is sent to air and trade shows to promote national security, foreign policy, or community relations objectives and what costs contractors must pay in order to lease equipment from the government.

Background

At trade shows, government and industry exhibitors display products and services to potential buyers and other interested parties. At air shows, exhibitors display and demonstrate aircraft to increase general public awareness and understanding of aviation and aerospace technology. Often, these two events are combined into one, called an air and trade show. Some industry representatives consider two international air and trade shows as being preeminent—the Paris, France, show in odd-numbered years and the Farnborough, United Kingdom, show in even-numbered years. Other major international air and trade shows include those in Abbotsford, Canada; Dubai, United Arab Emirates; Singapore; and Fidae Santiago, Chile.

While both U.S. contractors and DOD participate in these shows, their objectives are different. U.S. defense contractors display and/or demonstrate the products that they have developed, manufactured, and sold to the U.S. government and other customers to market their company

and products to potential buyers. According to DOD officials, the U.S. military also participates in these shows to demonstrate commitment to an alliance or a region, show military power, and facilitate better military-civilian relations within a community, foreign or domestic.

The Departments of State and Commerce participate at air and trade shows to support the efforts of U.S. companies abroad, including the defense trade arena, and have requested DOD's increased participation at selected shows.

Participation Increased at Selected Shows

According to DOD officials, after the Persian Gulf War, DOD increased its participation at selected international air and trade shows by sending more personnel and equipment. DOD officials said that increased participation was undertaken to accomplish national security, foreign policy, and community relations goals.

In response to a 1990 request by the Secretary of Commerce for increased DOD participation, DOD sent more equipment and personnel to the Paris and Singapore shows than it had before. The Department of State and the U.S. Ambassadors to France and Singapore supported these requests. According to the Assistant Secretary of Defense for International Security Affairs, the increased U.S. participation in the Paris Air Show in June 1991 represented a cost-effective demonstration of continued interest and commitment when overseas base closures were being announced. This official also stated that greater participation at the 1992 Singapore show provided public affairs benefits and a tangible demonstration of U.S. support for regional stability in view of U.S. withdrawal from Philippine bases.

The U.S. Ambassador to the United Kingdom requested increased DOD participation at the Farnborough air and trade show. He indicated that greater DOD participation at the 1992 Farnborough show underlined continuing American commitment to European security affairs, promoted U.S./U.K. cooperative armaments programs and U.K. acquisition of U.S. defense products, and benefited U.S./U.K. relations.

Table 1 is a DOD-provided list of equipment at selected international shows.

Table 1: DOD Equipment at Selected International Air and Trade Shows

Show	Service providing equipment		
	Air Force	Army	Navy
Paris (June 1991)	1 F-16C	1 OH-58D ^a	1 F-14
	1 F-15C	1 CH-47	1 F/A-18
	1 F-117A	1 AH-64	1 AH-1W ^a
	1 A-10A	1 AH-1F	1 SH-60
	1 F-15E	1 UH-60 ^a	1 E-2C ^a
		1 UH-60	1 A-6E
		1 Patriot	1 EA-6B
Dubai (Nov. 1991)			1 P-3C
			1 AV-8B
	1 F-15C	1 M1A1 ^a	1 AH-1W
	1 F-117A	1 M2A2 ^a	1 CH-53
	1 A-10A	1 OH-58D ^a	1 AV-8B
	2 F-16C ^a	1 AH-64 ^a	1 P-3C
			1 SH-60
Singapore (Feb. 1992)			1 F/A-18
	1 F-15C	1 OH-58D ^a	1 E-2C
	1 A-10A	1 AH-64	2 F/A-18
	1 F-16C ^a	1 UH-60 ^b	2 AV-8B
		1 Avenger ^a	1 SH-60
Farnborough (Sept. 1992)		1 P-Star Radar	1 AH-1W
	1 F-15C	1 OH-58D	1 E-2C
	1 F-15E	1 UH-60	1 P-3C
	1 F-16C	1 AH-64	1 F/A-18
		1 CH-47D	

^aEquipment leased or bailed to contractors.

^bEquipment taken to the show by the Army and leased to the contractor for a portion of the show

Note: In addition to the equipment listed above, various support aircraft were used, either for the transport or refueling of equipment or, as required by safety regulations, to accompany aircraft that made transoceanic flights to participate in the air and trade shows. Three support aircraft were used in Paris, seven in Singapore, and two in Farnborough.

As an indication of increased DOD participation, available data show that DOD provided only 1 piece of equipment at the 1989 Paris show compared with the 17 pieces in 1991; contractors leased 4 pieces at both shows. Likewise, DOD provided two pieces at Farnborough in 1990 and nine in 1992, while contractors leased five in 1990 and none in 1992. DOD did not have similar data for the Singapore and Dubai shows.

In addition to providing military equipment, DOD components operated and maintained technology display booths at the Paris, Singapore, and Farnborough shows. Military personnel assigned to these booths helped

explain the latest research and development efforts and technological advances of service laboratories.

Costs of DOD Participation

DOD incurs both direct and indirect costs at air and trade shows. Direct costs include training and incremental costs related to DOD participation. Indirect costs are costs incurred by contractors and charged to the government via overhead on government contracts. DSAA and service officials provided data on direct costs for the recent Paris, Singapore, Farnborough, and other selected air and trade shows. We could not compare the costs for shows prior to and after May 1991 because DOD officials said that complete, actual participation and cost data had not been collected prior to 1991.

Direct Costs

DOD incurs two types of direct costs at air and trade shows—(1) the costs of training missions employed to transport equipment and (2) incremental costs, such as those for supporting personnel and providing other services related to displayed and/or demonstrated equipment and technology booths.

Although training costs increase as more equipment and personnel are sent to shows, DOD officials said these costs do not result in additional outlays. According to DOD officials, the flying hours required to take aircraft to these shows is considered part of the pilot and crew training that is necessary to maintain proficiency and readiness. The officials said that military services do not schedule additional training missions for air and trade shows but substitute required missions to shows for other previously planned and budgeted missions. Therefore, more budgeted training funds were used for these recent shows but, according to DOD officials, DOD costs did not increase because training missions would have occurred whether for shows or other training.

Incremental costs at air and trade shows include lodging, meals, and local transportation for personnel involved. Towing service, ramp space, and security services are other incremental costs incurred for the equipment displayed at these shows. In some cases, sponsors of shows will pay some or all of these costs. However, DOD and industry officials said that when sponsors do not pay for towing service, ramp space, and security services, these costs have been borne by contractors.

DOD officials became concerned about the increased costs that would accompany increased participation and arranged to have contractors defray most incremental costs for service members transporting and supporting the equipment. DOD realized that providing additional equipment would involve lodging, meal, and local transportation expenses for additional personnel. Contractors, realizing the benefits of enhanced attendance, agreed to help defray the incremental costs after the DOD General Counsel reviewed and approved the arrangements as acceptable under existing ethics regulations. Contractors paid costs directly at the Paris show and through the Aerospace Industry Association of America, Inc., at the Singapore, Dubai, and Farnborough shows. Contractor and Association costs, which totaled about \$440,000, were considered gifts and contractors formally agreed not to charge these costs on government contracts. While contractors paid most costs for service members, the services paid some temporary duty costs, such as meal expenses, in accordance with the Joint Travel Regulations.

In addition to sending equipment and related personnel, the military services and other DOD organizations constructed, transported, and operated technology booths. According to a DOD official, the military services and other DOD organizations have operated technology booths at shows for many years. DOD officials said that they had not maintained data for previous years on these activities and could not determine whether their number or cost had increased. DOD paid for these activities from miscellaneous operations and maintenance budget accounts. It also used separate temporary duty travel budgets for the expenses of senior officials attending the shows.

Another possible cost DOD could incur at shows would be the costs for damaged or destroyed equipment. When the U.S. Marine Corps AV-8B Harrier airplane crashed while leaving the air and trade show in Singapore in 1992, it was conducting an approved training mission from Singapore to its next destination. According to a DOD official, the government was responsible for the \$18.9 million cost of the aircraft because the airplane was under U.S. Marine Corps control. Conversely, a contractor is responsible for any damage or destruction to equipment leased from the government for its own display or demonstration. In 1980, an F/A-18 aircraft leased and operated by McDonnell Douglas from the U.S. Navy crashed during the return trip from the Farnborough Air Show. McDonnell Douglas was responsible for the loss.

Indirect Costs

In addition to the direct costs DOD pays, DOD incurs indirect costs as it reimburses some contractor costs incurred at air and trade shows. Contractors can account for certain show participation costs as foreign selling costs, a percentage of which may be reimbursed by the government through overhead on government contracts.¹ The Federal Acquisition Regulation states that selling costs incurred in connection with a significant effort to promote export sales of products normally sold to the U.S. government, including the costs of exhibiting and demonstrating such products, are allowable under government contracts under certain conditions. The effects of enhanced DOD participation on these costs, whether an increase or decrease, cannot be determined because these costs are recorded in the contractors' individual overhead accounts and will not be settled for years.

Cost Estimates Provided for Selected Shows

In the documents approving DOD participation at the Paris, Singapore, and Farnborough air and trade shows, DOD officials expressed a need to limit costs. The costs for the Paris show were to be reported to the Deputy Secretary of Defense. According to DOD memorandums, the Deputy Secretary of Defense approved DOD's participation in the Singapore air and trade show provided training costs did not exceed \$500,000 and all other costs did not exceed \$600,000. Participation at the Farnborough event was contingent on an overall cost limit of \$500,000.

In response to concerns about costs, DSAA officials developed estimates of training and incremental costs. Officials subsequently updated these early estimates with other data as it became available. The training cost estimates are based on flying hour costs from service-provided data and include all aircraft involved with the shows, including support aircraft. Incremental costs include displayed equipment personnel costs not covered by contractors, technology booth and related personnel costs, costs of visits by senior officials, and any other incidentals not related to training. DOD officials told us that the incremental cost estimates do not include any costs paid directly or indirectly by contractors and, therefore, represent only DOD's direct cost at shows. DSAA's updated cost estimates are provided in table 2.

¹The percentage is based on allocation of these costs to the company's contracts with DOD. The percentage allocated to the government contract is usually based on a percentage of the company's contracts with the government, as opposed to those with a private company.

Table 2: Estimated DOD Direct Costs at International Air and Trade Shows Since May 1991

	Costs			
	Air Force	Army	Navy	Total
Paris (June 1991)				
Training	\$199,000	\$9,000	\$242,727	\$450,727
Incremental	279,167	302,954	225,108	807,229 ^a
Abbotsford (September 1991)				
Training	163,274	33,616	101,000	297,890
Incremental	34,290	25,000	4,000	63,290
Dubai (November 1991)				
Training	8,193	7,500	28,721	44,414
Incremental	1,476	0	0	1,476
Singapore (February 1992)				
Training	273,800	0	204,002 ^b	477,802
Incremental	97,160	267,199 ^c	108,914	473,273 ^d
Fidae Santiago (March 1992)				
Training	543,296	0	0	543,296
incremental	271,799	0	0	271,799
Farnborough (September 1992)				
Training	23,383	125,748	24,305	173,436
Incremental	113,280	41,200	30,240	184,720
Total				
Training	1,210,946	175,864	600,755	1,987,565
Incremental	797,172	636,353	368,262	1,801,787
Total	\$2,008,118	\$812,217	\$969,017	\$3,789,352

^aIn addition, DSAA and DOD's International Programs office paid \$14,076 in temporary duty costs.

^bThis does not include the \$18.9-million cost of a U.S. Marine Corps AV-8B Harrier airplane that crashed while leaving the show.

^cAt Singapore, cost of transporting equipment was not a part of training but was covered by other accounts because equipment was not available within the theater.

^dIn addition, the Pacific Command incurred costs of \$25,000 for a booth.

We could not determine if DOD's direct costs of participation increased at shows after May 1991 because DOD had not collected participation and cost data for the shows prior to May 1991 and officials could not provide any cost estimates. DOD officials only were able to reconstruct equipment inventories for the Paris show in 1989 and the Farnborough event in 1990.

Officials could not construct similar cost estimates for these two shows because they could not locate records on the origin and destination of the equipment displayed. Furthermore, they could not find records on personnel and other incremental expenses.

Policies on Participation and Related Costs Not Well-Defined

The lack of written policies on international air and trade show participation, approval of participation on a show-by-show basis, and statements by DOD officials that existing community relations guidelines do not govern participation in such shows precludes a documented determination as to whether DOD has changed policies since May 1991.

DOD officials told us that the increased participation since 1991 in international air and trade shows did not result from a policy change and that DOD does not have written policies governing participation at such shows. They said that approval is documented in policy memorandums that are prepared for and approved by the Deputy Secretary of Defense for each show. These memorandums, which have cited community relations as justification for participating in international air and trade shows, have been the basis for decisions on level of participation and costs to be incurred. DOD Directive 5410.18 and DOD Instruction 5410.19 on community relations, which were last revised in 1976 and 1979, respectively, specify guidelines for military participation at public events, such as air shows. The guidelines state that participation in air shows is to be at no additional cost to the government but do not address aspects of international air and trade shows such as technology display booths or the display of ground equipment, such as tanks.

DOD officials agree that the guidance on air and trade shows is vague. They added that the guidelines provide initial guidance only to DOD components participating in international air and trade shows. According to these officials, the guidelines, which include incremental cost constraints, do not apply because the national security and foreign policy objectives of such shows transcend the community relations content of these guidelines. Furthermore, DOD officials said that pursuit of these broader objectives allows DOD the flexibility to determine policy on a show-by-show basis.

Coordination Responsibility Revised for Selected Shows

Concurrent with sending more equipment and personnel, DOD changed the responsibility for organizing and coordinating military service participation for selected shows. DSAA, the element of the Office of the Under Secretary of Defense for Policy charged with managing and supporting foreign military sales that further national security interests, was the focal point for coordination of DOD participation at the Paris, Singapore, and Farnborough shows. DSAA prepared the policy memorandum for each show.

The Director of DSAA said that this task was assigned to DSAA because it had handled equipment leases to industry in the past and had interacted regularly with industry on foreign military sales issues. He said that DSAA would reevaluate its role after the three shows.

Prior to this assignment to DSAA, participation at these shows had been coordinated and approved on a show-by-show basis either by the cognizant Unified Commander (if the equipment was under that commander's authority) or by the Assistant Secretary of Defense for Public Affairs (if participation involved equipment of more than one Unified Commander and/or military service). This continues to be the coordination and approval responsibility for the lesser shows, like those in Chile and Canada.²

Basic Policy on Leasing Equipment to Contractors Not Revised

DOD has not changed its policy on leasing equipment to contractors for international air and trade shows. The service secretaries, under 10 U.S.C. 2667, are authorized to lease equipment when it will promote national defense or is in the public interest. If contractors desire to display and/or demonstrate DOD equipment, DOD policy requires them to lease the equipment from the military services. At international air and trade shows, DOD's displays and/or demonstrations could meet contractors needs; however, if contractors want other equipment displayed and/or demonstrated to achieve marketing objectives, then contractors must lease the equipment to have it available. Under DOD Instruction 7230.7, which implements 31 U.S.C. 9701, DOD is to collect a charge based on the fair market value for leased equipment. Fair market value for military equipment consists of depreciation, based on the service life of the equipment, and interest on investment. In addition to rental cost,

²For the 1991 Dubai show, DSAA prepared a policy guidance memorandum and the Deputy Secretary of Defense granted final approval for military participation. However, the Commander in Chief of Central Command, the cognizant Unified Commander of the middle east region, managed coordination of military service participation at this event.

contractors also pay for all costs of operating, maintaining, transporting, and repairing or replacing equipment under lease.

Service secretaries have the authority to reduce or waive lease charges if the secretaries determine that the exhibition of equipment at a show is in the national security interest. Secretaries did not have this authority for about 10 months after the National Defense Authorization Act for Fiscal Years 1992 and 1993, effective December 5, 1991, amended 10 U.S.C. 2667 to require that the fair market value of all leased equipment during those lease periods be paid by lessees with no exceptions. However, the National Defense Authorization Act for Fiscal Year 1993 amended 10 U.S.C. 2667 to limit this requirement to leases for real property (land and buildings). According to a DOD official, data on the extent that no-rental cost leases have been used at international air and trade shows was not collected prior to the 1991 Paris show.

As an example of a lease arrangement, LTV Aerospace and Defense Company leased from DOD an aircraft with LTV-designed equipment to demonstrate the equipment at the Farnborough Air Show in 1990. LTV paid \$43,672 (\$24,270 for depreciation and interest on investment, \$5,670 for flying hours, \$2,970 for fuel, \$4,338 for supplies, \$3,000 for crew per diem, and \$3,424 for other costs) to lease the aircraft from DOD. These costs do not include the insurance and other costs not specified in the lease and paid separately by the contractor.

Although DOD has not changed its leasing policy, the Director of DSAA said that industry benefited from more equipment being available at recent shows because contractors had it available for display without incurring lease costs. Also, the Army used a low-cost lease option at the Dubai show and has used no-rental cost leases at several shows.

At the 1991 Dubai show, DOD officials decided to have significant, but less visible military participation. To accomplish this, they approved unique leasing arrangements by which three pieces of equipment were transported to Dubai and then leased to the contractors for the show. Under normal arrangements, contractors leasing equipment from DOD would be responsible for transporting the equipment to the show unless DOD is transporting equipment to a show for its own reasons. The contractor would pay for costs incurred in transit to and from the show and during the show. These include transportation, insurance, support, and, if required, rental costs. According to a DSAA official, this was the first time DOD used this type of leasing option.

Our review of selected leases between the Army and contractors indicates that an authorized designee of the Secretary of the Army allowed no-rental cost leases by waiving depreciation and interest on investment charges. For example, the three pieces at the Dubai show were leased with no charge for depreciation and interest on investment. The Army charged McDonnell Douglas Helicopter Company \$100,000 in miscellaneous fees for the transportation of the AH-64 Apache to Dubai but did not require the company to pay for depreciation and interest on investment, which would have totaled about \$18,000. The Army did not require General Dynamics Land Systems, Inc., or FMC Corporation to pay the depreciation and interest on investment costs for the M1A1 tank and M2A2 infantry fighting vehicle, respectively. In addition, the Army did not require Bell Helicopter Textron, Incorporated, to pay the depreciation and interest on investment costs, which would have totaled about \$316,000,³ for the lease of the OH-58D helicopter from October 1991 to March 1992. The contractor, which leased the aircraft for display and demonstration at three events, including the Dubai and Singapore shows, was to pay all personnel, maintenance, logistic, and transportation costs.

Recent Legislation Addressed Participation and Costs

Section 1082 of the National Defense Authorization Act of 1993 provides DOD specific statutory authority to participate in international air and trade shows for national security reasons. For military department participation, the act requires the Secretary of Defense to provide congressional defense committees with, among other information, a justification for attending and a cost estimate. The act also requires contractors or industrial associations to reimburse the government for all incremental costs associated with equipment provided by request.

The legislation does not require DOD to develop implementing directives and, as of December 1992, officials said that they have no plan to do so. However, they did agree that new or revised directives could provide a more defined policy for guiding activities and costs at air and trade shows and specifically address areas such as display of ground equipment and use of technology booths, contractor payments to offset personnel and equipment costs, and incremental costs not covered by contractors. In addition, the policy on leases to contractors probably will need to be more specifically defined because section 1082 only addresses recovering incremental cost of leased equipment, not the fair market value currently discussed in DOD instructions.

³This estimate was computed using a \$2,200 daily lease charge provided by the Army.

Policies Vary Among Other Nations

Other leading industrialized nations have varying policies on participating in and providing financial assistance to military contractors at air and trade shows.

According to a Defence supply officer at the British Embassy in Washington, D.C., the United Kingdom Ministry of Defence does not send equipment via training missions to air and trade shows to promote its own national security, foreign policy, or community relations objectives. However, the Ministry of Defence has an organization, the Defence Export Services Organization, whose role is to help U.K. firms market and sell their defense products and services overseas. The organization provides military assistance in support of sales by organizing exhibitions and demonstrations. The embassy official also told us that contractors desiring to display or demonstrate government equipment are expected to lease the equipment from the Ministry of Defence and pay for all incremental costs. Under these leases, the Ministry of Defence requires that the lease prices include depreciation and interest on investment.

An official from the French Embassy in Washington, D.C., stated that the French military participates in air and trade shows by sending equipment for display and demonstration and operating technology booths. However, the government requires contractors to pay for all expenses that are incurred to display and demonstrate equipment and are not already provided by the military. Contractors must pay for the insurance and fuel costs involved in a display and for the insurance, fuel, personnel, maintenance, and aerial refueling costs required for a demonstration. However, the French government does not charge contractors for depreciation or interest on investment.

According to an official at the German Embassy in Washington, D.C., the German Ministry of Defense does not send equipment via training missions to air and trade shows to promote its own national security, foreign policy, or community relations objectives. When German contractors do not provide equipment from their own inventories for display or demonstration, they are required to lease the equipment from the Ministry of Defense and pay all incremental costs, including depreciation and interest on investment.

Recommendation

We recommend that the Secretary of Defense, in implementing Section 1082 of the National Defense Authorization Act for Fiscal Year 1993, issue directives that provide policies and guidance on (1) DOD's participation at

international air and trade shows, (2) the reporting and accumulating of participation costs, and (3) leasing equipment to contractors at such shows.

Agency Comments

In commenting on this report, DOD generally concurred with our findings and recommendation. Appendix I contains DOD's written response. We have made minor factual revisions to the report where appropriate based on DOD's response. DOD agreed with the need for additional guidance on participation in international air and trade shows, reporting and accumulating participation costs, and leasing equipment to contractors. DOD plans to issue appropriate directives and/or instructions on these matters in implementing Section 1082 of the National Defense Authorization Act for Fiscal Year 1993.

Scope and Methodology

We interviewed DOD officials in the Office of the Assistant Secretary of Defense for Public Affairs; DSAA; Navy International Programs Office, Deputy Chief of Staff for Logistics; Security Assistance, Department of the Army; and Budget, Policy and Procedures Office and Deputy Secretary for International Affairs, Department of the Air Force. We also interviewed officials of Aerospace Industries Association of America, Inc., an aerospace industry association; LTV Aerospace and Defense Company; General Dynamics Corporation; McDonnell Douglas Corporation; McDonnell Douglas Helicopter Company; McDonnell Aircraft Company; Martin Marietta Corporation; Martin Marietta International, Inc.; Rockwell International; and Lockheed Aircraft Company.

As agreed, we obtained DOD's available equipment inventory and cost data for six air and trade shows in which DOD and the military services have participated since May 1991. These shows were in

- Paris, France, from June 13 through June 23, 1991;
- Abbotsford, Canada, from August 7 through August 11, 1991;
- Dubai, United Arab Emirates, from November 3 through November 7, 1991;
- Singapore from February 25 through March 1, 1992;
- Fidae Santiago, Chile, from March 8 through March 15, 1992; and
- Farnborough, United Kingdom, from September 6 through September 13, 1992.

We did not verify the cost data provided by either DSAA or the military departments.

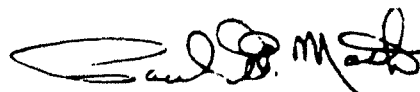
We also reviewed pertinent information on DOD's air show participation, leasing requirements, and indirect costs from the United States Code, Federal Acquisition Regulation, and DOD regulations and publications.

As agreed, our effort to determine how foreign governments support their nation's defense contractors at trade shows was limited to contacting local embassy officials. We interviewed officials from the British, French, and German embassies in Washington, D.C., and obtained information related to their governments' policies on providing financial support to contractors for participation at air and trade shows. However, our limited information is inadequate for determining the type and extent of government support for such shows. Such determination would require more in-depth analysis because of the varying relationships between governments and industries. Our review was performed from May to October 1992 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to interested congressional committees; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Director, Office of Management and Budget. Copies will also be made available to others upon request.

Please contact me at (202) 512-4587 if you or your staff have any questions concerning this report. Appendix II provides a list of major contributors to this report.

Sincerely yours,



Paul F. Math
Director, Acquisition Policy, Technology,
and Competitiveness Issues

Comments From the Department of Defense



INTERNATIONAL
SECURITY AFFAIRS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D.C. 20301

In reply refer to:
I-041288/93

10 FEB 1993

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INTERNATIONAL AIR/TRADE SHOWS: DoD Increased Participation But Policies Are Not Well-Defined", Dated January 6, 1993 (GAO Code 396158), OSD Case 9237. The DoD generally concurs with the draft report.

The DoD agrees that there is a need for additional guidance relating to DoD participation in international air/trade shows. Accordingly, the DoD plans to issue directives by September 1, 1993 that will provide the policies and guidance needed to implement Section 1082 of the National Defense Authorization Act for Fiscal Year 1993.

Detailed DoD comments on the report findings and recommendation are attached. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

William T. Pendley
WILLIAM T. PENDLEY
for ASD/ISA

Attachment
as stated

GAO DRAFT REPORT--DATED JANUARY 6, 1993
(GAO CODE 396158) OSD CASE 9237

**"INTERNATIONAL AIR/TRADE SHOWS: DOD INCREASED
PARTICIPATION BUT POLICIES ARE NOT WELL DEFINED"**

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

- o **FINDING A: International Air/Trade Shows.** The GAO explained that at trade shows, Government and industry exhibitors display products and services to potential buyers and other interested parties--while, at air shows, exhibitors display and demonstrate aircraft to increase general public awareness and understanding of aviation and aerospace technology. The GAO asserted that often these two events are combined into one, referred to as an air/trade show. The GAO observed that two international air/trade shows are considered as preeminent--the Paris, France show held in odd-numbered years, and the Farnborough, United Kingdom show held in even-numbered years. The GAO noted that, while both U.S. contractors and the DoD participate in the shows, their objectives are different. The GAO indicated U.S. Defense contractors display and/or demonstrate the products that have been developed, manufactured, and sold to the U.S. Government and other customers to market the company and products to potential buyers. The GAO noted that, on the other hand, the U.S. military participates in the shows (1) to demonstrate commitment to an alliance or a region, (2) show military power, and (3) to facilitate better military-civilian relations within a community. (p. 3/GAO Draft Report)

DoD Response: Concur.

- o **FINDING B: Participation Increased at Selected Shows.** The GAO reported that the DoD increased participation at the Paris and Singapore shows in response to a 1990 Secretary of Commerce request. The GAO indicated that the U.S. Ambassadors to France, Singapore, and the United Kingdom supported increased DoD participation in the shows in their host countries. The GAO reported that the DoD characterized increased participation at Paris as a cost-effective demonstration of continued interest and commitment when overseas base closures were being announced, and participation at Singapore as providing public affairs benefits and a tangible demonstration of U.S. support for regional stability despite U.S. withdrawal

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from Philippine bases. The GAO further reported that the U.S. Ambassador to the United Kingdom indicated that greater DoD participation at the 1992 United Kingdom show underlined continuing American commitment to European security, promoted United States/United Kingdom relations and cooperative armaments programs and United Kingdom acquisition of U.S. defense products. The GAO found that in addition to military equipment, the DoD components operated and maintained technology display booths at the shows. The GAO noted that military personnel assigned to the display booths helped to explain to attendees the latest research and development efforts and technological advances of service laboratories. (Report table 1 lists the DoD equipment sent to the Paris, Dubai, Singapore and Farnborough shows.) (pp. 4-6/GAO Draft Report)

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DoD Response: Concur.

- o **FINDING C: Costs of DoD Participation--Direct Costs.**
The GAO found that the DoD incurs (1) the costs of training missions employed to transport equipment, and (2) incremental costs for supporting personnel and providing other services related to displayed and/or demonstrated equipment and technology booths. The GAO further observed that, although training costs increase as more equipment and personnel are sent to shows, the costs do not result in additional outlays, because the flying hours required to take aircraft to the shows are considered part of the pilot and crew training that is necessary to maintain proficiency and readiness. The GAO found that the Military Services do not schedule additional training missions for air/trade shows--rather, they substitute required missions to shows for other previously planned and budgeted missions. The GAO explained that, although more budgeted training funds were used for recent shows, the DoD costs did not increase, because training missions would have occurred whether for shows or other training.

The GAO pointed out that incremental costs at air/trade shows include lodging, meals, and local transportation for the personnel involved. The GAO also noted that towing service, ramp space, and security services are other incremental costs incurred for the equipment displayed at the shows. The GAO explained that, in some cases, sponsors of shows will pay some or all of those costs. The GAO concluded, however, that sponsors of the international air/trade shows generally did not pay the incremental costs. The GAO asserted that, because they realized the benefits of enhanced attendance, contractors agreed to help defray the incremental costs after the DoD General Counsel reviewed and approved the arrangements as acceptable under existing ethics regulations. The GAO found that contractors paid costs directly at the Paris show, and,

through the Aerospace Industry Association of America, Inc., at the Singapore, Dubai, and Farnborough shows. The GAO further asserted that contractor and Association costs, which totaled about \$440,000, were considered gifts and contractors formally agreed not to charge the costs on Government contracts. While contractors paid most costs for Service Members, the GAO found that the Services paid some temporary duty costs--such as meal expenses--in accordance with the Joint Travel Regulations.

The GAO reported that, in addition to sending equipment and related personnel, the Military Services and other DoD organizations constructed, transported, and operated technology booths. The GAO found that the DoD had not maintained data on those activities and, therefore, could not determine whether the number or cost had increased. The GAO pointed out the DoD could incur costs for damaged or destroyed equipment. According to the GAO, conversely, a contractor is responsible for any damage or destruction to equipment leased from the Government for its own display or demonstration. (pp. 6-8/GAO Draft Report)

DoD Response: Partially concur. The finding states that the DoD has not maintained data on the technology booths and therefore could not determine whether the number or cost has increased. It should be noted that, although data prior to 1991 were not available, complete cost data were recorded for the last three shows (Paris, Singapore, Farnborough). It should also be noted that towing, ramp space, and security costs were among the incremental costs usually borne by the contractor displaying the equipment, and not by the DoD.

- o **FINDING D: Costs of DoD Participation--Indirect Costs.** The GAO asserted that the DoD incurs indirect costs, as some contractor costs incurred at air/trade shows are reimbursed. According to the GAO, contractors can account for certain show participation costs as foreign selling costs, a percentage of which may be reimbursed as overhead on Government contracts. The GAO concluded that the effects of enhanced DoD participation on these costs, whether an increase or decrease, cannot be determined, because indirect costs are recorded in the contractors' individual overhead accounts and will not be settled for years. (pp. 8-9/GAO Draft Report)

DoD Response: Concur.

- o **FINDING E: Cost Estimates Provided for Selected Shows.** The GAO found that, in the documents approving DoD participation at the Paris, Singapore, and Farnborough air/trade shows, DoD officials expressed a need to limit

costs. The GAO noted that the costs for the Paris show were to be reported to the Deputy Secretary of Defense. The GAO further found that, according to DoD memoranda, the Deputy Secretary of Defense approved DoD participation in the Singapore air/trade show, provided training costs did not exceed \$500,000 and all other costs did not exceed \$600,000. In addition, the GAO found that participation at the Farnborough event was contingent on an overall cost limit of \$500,000.

The GAO observed that, in response to concerns about cost estimates provided for selected shows, the Defense Security Assistance Agency developed estimates of training and incremental costs--which were updated with other data as they became available. The GAO explained that the training cost estimates were based on flying hour costs from Service-provided data and include all aircraft involved with the shows (including support aircraft). Incremental costs include: (1) displayed equipment personnel costs not covered by contractors, (2) technology booth and related personnel costs, (3) costs of visits by senior officials, and (4) any other incidentals not related to training. The GAO learned that the incremental cost estimates do not include any costs paid directly or indirectly by contractors and, therefore, represent only the DoD direct costs at shows. (Report table 2 provides a detailed estimate of DoD direct costs at international air/trade shows since May 1991.) (pp. 9-12/GAO Draft Report)

DoD Response: Concur.

- o FINDING F: Policies on Participation and Related Costs Not Well-Defined. The GAO concluded that the lack of written policies on international air/trade show participation, approval of participation on a show-by-show basis, and statements by DoD officials that existing community relations guidelines do not govern participation in such shows, preclude a documented determination as to whether the DoD has changed policies since May 1991. The GAO pointed out that DoD Directive 5410.18 and DOD Instruction 5410.19 on community relations, which were last revised in 1974, specify guidelines for Military participation at public events, such as air shows. The GAO further pointed out that the above mentioned guidelines provide initial guidance only to DoD components participating in air/trade shows. The GAO noted that, according to DoD officials, those guidelines, which include incremental cost constraints, do not apply because the national security and foreign policy objectives of such shows transcend the community relations content of the guidelines and allow the Department flexibility to determine policy on a show-by-show basis. (pp. 12-13/GAO Draft Report)

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DoD Response: Concur.

- o **FINDING G: Coordination Responsibility Revised for Selected Shows.** The GAO found that the DoD changed the responsibility for organizing and coordinating Military Service participation for selected shows. According to the GAO, the Defense Security Assistance Agency, the element of the Office of the Under Secretary of Defense for Policy charged with managing and supporting foreign military sales that further national security interests, was the focal point for coordination of DoD participation at the Paris, Singapore, and Farnborough shows. The GAO observed that the Defense Security Assistance Agency was assigned the responsibility because it had handled equipment leases to industry in the past and had interacted regularly with industry on foreign military sales issues. The GAO further observed that the assignment was on a trial basis and was to be re-evaluated after the Paris, Singapore, and Farnborough shows.

The GAO pointed out that, prior to the assignment to the Defense Security Assistance Agency, participation at the shows had been coordinated and approved on a show-by-show basis, either by the cognizant Unified Commander (if the equipment was under that Commander's authority), or by the Assistant Secretary of Defense for Public Affairs (if participation involved equipment of more than one Unified Commander and/or Military Service). The GAO further pointed out that arrangement continues to be the coordination and approval responsibility for the lesser shows. (pp. 13-14/GAO Draft Report)

DoD Response: Partially concur. The DoD did not formally establish a trial program for participation that would be reviewed after the Farnborough event. However, the Defense Security Assistance Agency did informally take that approach as concerned its own involvement and recommendations to higher authorities regarding participation in future shows.

- o **FINDING H: Basic Policy on Leasing Equipment to Contractors Not Revised.** The GAO found that the DoD has not changed its policy on leasing equipment to contractors for international air/trade shows. The GAO explained that, under 10 U.S. Code 2667, the DoD is authorized to lease equipment when it will promote National Defense or is in the public interest. The GAO observed, however, that if contractors desire to display and/or demonstrate DoD equipment, DoD policy requires the contractors to lease the equipment from the Military Services. The GAO further observed that, under DoD Instruction 7230.7, which

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implements the User Charges Statute, the DoD is to collect a charge based on the fair market value, including depreciation and interest investment, for leased equipment. The GAO explained that fair market value for military equipment consists of depreciation, based on the service life of the equipment, and interest on investment, as well as all costs of operating, maintaining, transporting, and repairing/replacing equipment under lease.

The GAO pointed out, however, that the Service Secretaries have the authority to waive lease charges, if the Secretaries determine the exhibition of equipment at a show is in the national security interests of the United States. The GAO found that the DoD has not collected data on the extent waivers of rental cost have been used at international air/trade shows. The GAO concluded that, although the DoD has not changed its leasing policy, industry benefitted from more equipment being available at the recent shows, because contractors had the equipment available for display without incurring lease costs. The GAO further concluded that the DoD used a low-cost lease option at the Dubai show, and the Army has used no-rental cost leases at several shows. The GAO cited several examples of lease costs, including a \$316,000 estimate for the Army's lease of an OH-58D helicopter to Bell Helicopter Textron, Inc. from October 1991 to March 1992. (pp. 14-16/GAO Draft Report)

DoD Response: Concur. It should be recognized that the GAO estimate that the cost to Bell Helicopter of leasing the OH-58D for five months would have totalled \$316,000 is based on a \$2,200 daily lease estimate, provided to the GAO by the Army. That estimate, however, was calculated for a much briefer lease period. It is not clear that the same cost would apply uniformly over the entire five month period, and that the fair market value of such a lease really would total \$316,000. Moreover, whereas the GAO states that Service secretaries can waive lease rental costs if they determine that to do so is in the national security interest, the actual statutory authority (10 USC 2667) reads as follows: "Whenever the Secretary of a military department considers it advantageous to the United States, he may lease to such lessee and upon such terms as he considers will promote the national defense or be in the public interest ..."

- o **FINDING I: Recent Legislation Addressed Participation and Costs.** The GAO asserted that Section 1082 of the National Defense Authorization Act of 1993 provides the DoD specific statutory authority to participate in international air/trade shows for national security reasons. The GAO noted that, for Military Department participation, the Act requires the Secretary of Defense to provide Congressional

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Defense committees with justification for attending and a cost estimate. The GAO further noted that the Act also requires contractors or industrial associations to reimburse the Government for all incremental costs associated with equipment provided by request. The GAO concluded that, although the legislation does not require the DoD to develop implementing directives, new or revised directives could provide a more defined policy for guiding activities and costs at air/trade shows and specifically address areas such as display of ground equipment and use of technology booths, contractor payments to offset personnel and equipment costs, and incremental costs not covered by contractors. The GAO determined, however, that a more defined policy on leases to contractors probably will be needed, because Section 1082 only addresses the recovering of incremental cost of leased equipment--not the fair market value currently discussed in the DoD instructions. (pp. 16-17/GAO Draft Report)

DoD Response: Concur.

- o **FINDING J: Policies Vary Among Other Nations.** The GAO found that other leading industrialized nations have varying policies on participating in, and providing financial assistance to, military contractors at air and trade shows. The GAO described the various practices used by the United Kingdom, France, and Germany. (pp. 17-18/GAO Draft Report)

DoD Response: Concur. It should be noted, however, that the GAO obtained most of this information from representatives of the foreign governments addressed. The DoD did not attempt to independently validate that information.

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RECOMMENDATION

- o **RECOMMENDATION:** The GAO recommended that the Secretary of Defense, in implementing Section 1082 of the National Defense Authorization Act for Fiscal Year 1993, issue directives that provide policies and guidance on:
 - the DoD participation at international air/trade shows;
 - the reporting and accumulating of participation costs; and
 - leasing equipment to contractors at such shows. (p. 18/GAO Draft Report)

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Appendix I
Comments From the Department of Defense

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DoD Response: Concur. The DoD will initiate the development of directives and/or instructions needed to implement Section 1082 of the National Defense Authorization Act for Fiscal Year 1993. The target date for issuance of the new DoD guidance is September 1, 1993.

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

David Childress, Assistant Director
Charles W. Malphurs, Evaluator-in-Charge
Vincent L. Barrett, Jr., Evaluator